

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06  
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 CEQ-01  
EPA-01 IO-13 NSF-01 NSCE-00 /118 W  
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P 102045Z AUG 77  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC PRIORITY 4407

C O N F I D E N T I A L OTTAWA 07289

FEA FOR O'LEARY AND WHITE HOUSE FOR GOLDMAN FROM ENDERS

E.O. 11652: GDS  
TAGS: ENRG, SENV, CA  
SUBJECT: SHOULD WE LINK KITIMAT TO ALCAN?

1. FOR THREE REASONS I DO NOT REPEAT NOT THINK WE SHOULD ATTEMPT TO LINK THE KITIMAT OIL LINE WITH THE ALCAN NEGOTIATIONS AT THIS STAGE.
2. FIRST, THE FEDERAL GOVERNMENT IS NOT NOW IN A POSITION TO MAKE A COMMITMENT ON KITIMAT. REGULATORY PROCEEDINGS ARE UNDERWAY (NATIONAL ENERGY BOARD AND THOMPSON WEST COAST OIL PORTS INQUIRY) AND WILL NOT BE COMPLETED UNTIL YEAR'S END, IF THEN. TO ATTEMPT TO GET A CABINET DECISION IN PRINCIPLE BEFORE EARLY NEXT YEAR WOULD EXPOSE US AND THE FEDERAL GOVERNMENT TO CHARGES OF VIOLATING THE REGULATORY PROCESS, AND QUITE POSSIBLY BACKFIRE.
3. SECOND, THE REAL OPPOSITION IS NOT IN OTTAWA (ENERGY AND ENVIRONMENT MINISTERS HERE TELL ME PRIVATELY THEY FAVOR KITIMAT) BUT IN BRITISH COLUMBIA. THE PROVINCIAL GOVERNMENT STRONGLY OPPOSES KITIMAT AS INVOLVING MAJOR

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ENVIRONMENTAL COSTS BUT LITTLE ECONOMIC BENEFIT, SINCE IT WOULD NOT DELIVER OIL TO VANCOUVER OR ASSURE AGAINST EXPANDED TANKER TRAFFIC IN PUGET SOUND. BRITISH COLUMBIA MIGHT NOW HAVE A DIFFERENT VIEW OF A PROJECT THAT MET BOTH OF THOSE OBJECTIVES, BUT SO FAR IT HAS NOT BEEN REPORTED. IT IS TRUE THAT THE NATIONAL ENERGY BOARD HAS AUTHORITY TO CERTIFY PIPELINES THROUGHOUT CANADA,

BUT UNCERTAIN THAT IT WOULD DO SO UNLESS THE PROVINCIAL GOVERNMENT WERE ACQUIESCENT.

4. THIRD, I THINK WE CAN GET EVERYTHING NOW OBTAINABLE ON KITIMAT BY LINKING IT TO THE NORTHERN TIER AND WABANA DEAL, AND SHOULD SAVE ALL OUR BARGAINING LEVERAGE ON THE GAS PIPELINE FOR USE IN THE ALCAN DISCUSSIONS, WHERE THE BIG MONEY SWINGS WILL BE.

5. AS YOU KNOW, ENERGY MINISTER GILLESPIE WOULD LIKE TO ADD WABANA TO THE TIME SWAP DEAL, IN ORDER TO MAKE SOME EAST COAST POLITICAL POINTS. GILLESPIE TELLS ME HE HOPES TO FINALIZE THE DEAL THIS MONTH. THIS GIVES US AN OPPORTUNITY TO RAISE THE KITIMAT ISSUE IMMEDIATELY.

6. WHAT WE SHOULD DO IS: (A) SUGGEST THAT WE HAVE A COMPREHENSIVE AGREEMENT ON BORDER TRADE IN OIL TO INCLUDE THE NORTHERN TIER, WABANA, AND WEST COAST ARRANGEMENTS; (B) ASK FOR INFORMAL, ORAL UNDERSTANDING THAT GILLESPIE AND ENVIRONMENT MINISTER LE BLANC WILL USE THEIR INFLUENCE TO OBTAIN POSITIVE DECISION ON KITIMAT WHEN REGULATORY PROCESS IS COMPLETE; (C) COMMIT BOTH GOVERNMENTS TO WORK TOWARDS COORDINATED SOLUTION TO PACIFIC NORTHWEST-BRITISH COLUMBIA OIL NEEDS THAT MEET REQUIREMENTS OF BOTH SIDES FOR SECURE SUPPLIES AND MINIMUM ENVIRONMENTAL JEOPARDY, SETTING UP JOINT PLANNING GROUP TO SUBMIT OPTIONS TO CONFIDENTIAL

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PRINCIPALS.

7. SUCH A PACKAGE HARDLY GUARANTEES WE CAN BRING KITIMAT HOME BUT IT POINTS IN THAT DIRECTION. SOMETHING LIKE IT SHOULD BE OBTAINABLE WITH OIL LEVERAGE ONLY, LEAVING OUR GAS ASSETS (WHICH I AGREE WITH YOU ARE SUBSTANTIAL) UNENCUMBERED FOR USE IN THE ALCAN NEGOTIATIONS.

8. IF THE ABOVE DOESN'T WORK FOR ANY REASON, WE CAN ALWAYS TAKE ANOTHER LOOK AT THE SITUATION AND SEE WHETHER WE WANT TO INJECT THE ISSUE IN THE GAS PIPELINE DISCUSSIONS. ENDERS

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